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C O N F I D E N T I A L SECTION 01 OF 02 CARACAS 000426

SIPDIS

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TAGS: ECON EFIN PREL EINV PGOV VE  
SUBJECT: KIMBERLY-CLARK OPERATIONS IN VENEZUELA

REF: A. CARACAS 213  
1B. CARACAS 397

Classified By: Economic Counselor Darnall Steuart for reasons  
1.4 (b) and (d).

¶1. (C) Summary. Following extensive press coverage the week of March 23 of a government "investigation" of a plant owned by Kimberly-Clark, EmbOffs met with the company March ¶27. Kimberly-Clark reported it was not concerned by the "routine government inspection" of its Venezuelan factory. The company's Venezuelan operations are profitable and it plans additional investments to expand its three main product lines. As with the majority of companies operating in Venezuela, Kimberly-Clark faces hurdles in obtaining foreign exchange approval to import finished products and repatriate dividends and payment of approved foreign currency exchange. In the short-term, Kimberly-Clark may decide to repatriate dividends using the parallel exchange rate, a move which would result in a large currency exchange loss for the company and may undermine its profitability in Venezuela.

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WHAT'S All THE FUSS???

¶2. (C) On March 27, EmbOffs met with Luis Marcel Padilla (please protect throughout) head of Kimberly-Clark operations in Venezuela to discuss the recent high-profile inspection of its small local toilet paper factory by Indepabis, the government of the Bolivarian Republic of Venezuela (GBRV) consumer protection agency. The smallest player in the Venezuelan toilet paper market, Kimberly-Clark has ten percent market share, providing both regulated and unregulated toilet paper. The main players are Paveca and Manpa, which have experienced labor unrest in the past few months that have contributed to national toilet paper shortages. (ref A.) Kimberly-Clark does not have labor issues at the factory and has a contract with the single workers' union.

¶3. (C) Padilla characterized Indepabis's recent inspection as routine. Padilla said that Indepabis simply tracked the factory's operations to ensure that all toilet paper is produced and distributed within the company's four day production cycle. Padilla claimed that Indepabis was neither concerned with increasing production of regulated toilet paper nor sanctioning the firm. The company, Padilla said, was surprised by the extensive press coverage of the inspection, which inaccurately portrayed it as an "investigation."

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KIMBERLY-CLARK OPERATIONS IN VENEZUELA

¶4. (C) Kimberly-Clark's profitable Andean operation is the

company's second largest in Latin America. Its three main product lines are toilet paper, diapers and feminine care products. Other than toilet paper, its products are imported from Colombia and are subject to the CADIVI dollar process. (Note: CADIVI is the GBRV agency that controls the buying and selling of foreign currency at the official exchange rate. Companies seeking to import products at the official rate of 2.15 BsF per USD face a series of hurdles, including a GBRV process to certify domestic non-production. (ref B.) End Note.) Kimberly-Clark is still waiting on CADIVI approvals for dividend repatriation from 2007 and onward. Absent approval, Kimberly-Clark's recourse is to repatriate dividends using the parallel exchange rate, which would result in a large currency exchange loss.

¶5. (C) According to Padilla, MilCo, the GBRV Ministry of Commerce, was previously very quick to approve certificates of non-production. Kimberly-Clark now experiences six-month delays in the approval process. The company, Padilla said, received approval from CADIVI the week of March 16 for a large currency exchange request to import heavy equipment. However, the company has been experiencing a 100 day delay in payment by the Central Bank following receipt of the CADIVI approval. CADIVI does not normally approve 100 percent of the amount requested, but does approve, in Padilla's words, "a large portion of the amount Kimberly-Clark requests." Despite CADIVI delays, the company and the GBRV agreed on preferential CADIVI treatment along with a 30 million USD investment plan to expand Kimberly-Clark's product lines, although Kimberly-Clark has not yet fully approved the investment.

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COMMENT  
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¶6. (C) Kimberly-Clark exemplifies the case of other foreign companies weighing risk against opportunity in the Venezuelan market. It believes its relationship with the GBRV will allow the company's operations to remain profitable. However, its CADIVI approval and payment problems once again underscore the risk of doing business in Venezuela.

CAULFIELD